

Message Text

CONFIDENTIAL

PAGE 01 HONG K 10498 01 OF 02 241035Z

16/10

ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 DODE-00 PA-04 USIA-15 PRS-01 L-03 H-03 AGR-20

SWF-02 HUD-02 NSCE-00 DRC-01 /207 W

----- 125233

R 230300Z SEP 74

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 2305

INFO AMEMBASSY BONN

AMEMBASSY JAKARTA

AMEMBASSY LONDON

AMEMBASSY MANILA

AMEMBASSY PARIS

AMEMBASSY SEOUL

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

USLO PEKING

C O N F I D E N T I A L SECTION 1 OF 2 HONG KONG 10498

NOFORN

C O R R E C T E D C O P Y (TEXT)

DEPARTMENT PLEASE PASS TREASURY FOR BENNET AND PARSKY

E.O. 11652: GDS

TAGS: EFIN, CH

SUBJECT: CHINA'S 1974 BALANCE-OF-PAYMENTS

REF: HK A-96, HK 4861

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 HONG K 10498 01 OF 02 241035Z

1. INTRODUCTION - THIS ESTIMATE OF PRC BALANCE-OF-PAYMENTS IN 1974 UPDATES INITIAL PROJECTIONS IN REPAIR WHICH ALSO CONTAINS 1973 B/P AND OTHER SUPPORTING INFORMATION. IT PROVIDES A FRAMEWORK WITHIN WHICH TO ANALYZE CANTON FAIR RESULTS THIS FALL AND OTHER TRADE AND FINANCIAL DEVELOPMENTS AS THEY BECOME AVAILABLE.

2. THE PRINCIPAL CONCLUSIONS ARE:

- A) CHINA CONTINUES TO RELY ON THE EXTERNAL SECTOR TO SUPPLEMENT ITS OWN RESOURCES, QUANTITATIVELY, BY RUNNING A CURRENT ACCOUNT DEFICIT, AND QUALITATIVELY, BY IMPORTING ADVANCED EQUIPMENT;
- B) THIS IS AN UNPRECEDENTED SECOND YEAR OF A LARGE DEFICIT WITH NO INDICATION THAT VOLUME OF CURRENT IMPORTS ARE BEING CUT BACK, ALTHOUGH RATE OF INCREASE HAS BEEN REDUCED;
- C) IMPORTS AND EXPORTS ARE GROWING MUCH LESS RAPIDLY THAN IN 1973 WHILE THE TRADE AND B/P DEFICIT APPEARS TO HAVE INCREASED TO ABOUT \$1.4 BILLION IN 1974 COMPARED TO ABOUT \$0.5 BILLION LAST YEAR;
- D) THE SLOWDOWN IN EXPORT RECEIPTS IS EXPLICABLE IN TERMS OF WEAKENING FOREIGN DEMAND PARTICULARLY FOR TEXTILES, TEXTILE FIBERS AND GARMENTS ALTHOUGH IT MAY BE RELATED TO PRODUCTION PROBLEMS, AND THE UNWILLINGNESS OF THE PRC TO ADAPT ITS PRICES TO FOREIGN MARKET CONDITIONS AS WELL;
- E) OIL EXPORTS HAVE GROWN FROM 1 PERCENT TO 7 PERCENT OF RECEIPTS FOR 1973 TO 1974; AND
- F) THE DEFICIT CONTINUES TO BE FINANCED LARGELY BY HIGH INTEREST, RELATIVELY SHORT MATURITY CREDIT.

3. OUTLOOK - STEPS TO REDUCE DEFICITS OF THIS MAGNITUDE AND/OR TO FIND LESS EXPENSIVE WAYS TO FINANCE THEM WILL PROBABLY APPEAR IN THE NEXT SIX MONTHS. THESE CHANGES COULD INCLUDE:

- A) ACCELERATED EXPORT PROMOTION MAINLY OF OIL AND SECONDARILY OF LIGHT MANUFACTURES, PARTICULARLY TO THE U.S.,
- B) REDUCTION OF AGRICULTURAL IMPORTS IF THIS YEAR'S HARVEST/STOCK SITUATION PERMITS,
- C) REQUESTS FOR LONGER-TERM LOW-INTEREST EXPORT CREDIT FROM JAPAN AND WESTERN EUROPEAN SUPPLIERS.

4. OVERALL BALANCE-OF-PAYMENTS - THE TABLE BELOW INDICATES THE MAIN CATEGORIES OF BALANCE-OF-PAYMENTS. BECAUSE IT IS BASED ONLY

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 HONG K 10498 01 OF 02 241035Z

ON THE SAMPLE OF COUNTRIES WHICH NORMALLY MAKES UP ABOUT TWO THIRDS OF PRC TRADE AND FOR WHICH DATA FOR SIX MONTHS OR LESS IS AVAILABLE (EXCEPT JAPAN), THE CALCULATION SHOULD BE CONSIDERED QUITE TENTATIVE. THE ESTIMATE OF THE DEFICIT, IN PARTICULAR, SINCE IT IS AFFECTED BY POSSIBLE ERRORS IN ALL THE OTHER CATEGORIES, SHOULD BE REGARDED AS THE MIDPOINT OF A RANGE THAT MIGHT BE AS LOW AS \$1.2 BILLION OR AS HIGH AS \$1.6 BILLION.

	PERCENT		PERCENT	
	1973	INCREASE	1974	INCREASES
1. EXPORTS	4.4	45	5.5	25
(OF WHICH BLOC)	(0.8)		(0.9)	
2. IMPORTS	4.9	78	6.9	41
(OF WHICH BLOC)	(0.6)		(0.7)	
3. TRADE BALANCE	-0.5		-1.4	
4. NET SERVICES	-0.1		-0.3	
5. REMITTANCES	0.2		0.3	
6. CURRENT ACCOUNT, BALANCE	-0.4		-1.4	
7. CAPITAL ACCOUNT, BALANCE	0.4		1.2	
8. GROSS BORROWING	0.7		1.2	
9. AID & DEBT SERVICE	-0.3		-0.3	
10. USE OF RESERVES	--		0.2	

5. THE RATE OF INCREASE OF EXPORTS AND IMPORTS HAS SLOWED VERY MARKEDLY. WITH RESPECT TO EXPORTS, PRICES HAVE PROBABLY RISEN LESS THAN LAST YEAR WHEN PRICES OF FOOD EXPORTS JUMPED SHARPLY, IN RESPONSE TO WORLD DEVELOPMENTS, AND PRICES OF OTHER ARTICLES WERE RAISED TO MAXIMIZE RECEIPTS. ANOTHER FACTOR IS THE SHARP TURN AROUND IN IMPORT DEMAND IN THE HONG KONG AND JAPANESE MARKETS (ABOUT 40 PERCENT OF PRC EXPORTS) COMPARED TO 1973.

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 HONG K 10498 01 OF 02 241035Z

ALTHOUGH OIL SALES ARE BECOMING A MORE SIGNIFICANT FACTOR (\$400 MILLION OR SEVEN PERCENT OF THE TOTAL, THEIR EFFECT ON THE RATE OF INCREASE OF EXPORTS IS PARTLY OFFSET BY DECREASED DEMAND FOR SILK AND COTTON TEXTILES.

6. THE SLOWDOWN OF IMPORT GROWTH, COMPARED TO 1973, SEEMS MAINLY THE RESULT OF A SMALLER VOLUME INCREASE FOR MAJOR COMMODITIES LIKE GRAIN, COTTON AND STEEL. FERTILIZER PURCHASES WILL DECLINE, BUT INSUFFICIENT JAPANESE FERTILIZER-MAKING CAPACITY WAS THE REASON. ON PRICES, THE PICTURE IS MORE MIXED. THE LANDED PRICES OF GRAIN AND COTTON HAVE INCREASED LESS THIS YEAR THAN LAST BUT OTHER ITEMS SUCH AS STEEL, FERTILIZER AND PROBABLY MACHINERY HAVE MOVED UP MORE RAPIDLY.

CONFIDENTIAL

NNN

CONFIDENTIAL POSS DUPE

PAGE 01 HONG K 10498 02 OF 02 230456Z

20

ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 DODE-00 PA-04 USIA-15 PRS-01 AGR-20

SWF-02 HUD-02 DRC-01 NSCE-00 /207 W

----- 108750

R 230300Z SEP 74

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 2306

INFO AMEMBASSY BONN

AMEMBASSY JAKARTA

AMEMBASSY LONDON

AMEMBASSY MANILA

AMEMBASSY PARIS

AMEMBASSY SEOUL

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

USLO PEKING

C O N F I D E N T I A L SECTION 2 OF 2 HONG KONG 10498

NOFORN

7. THE TRADE DEFICIT HAS ROUGHLY TRIPLED AND THE HIGHER OVERALL VOLUME OF SHIPMENTS IS CAUSING LARGER OUTLAYS FOR FREIGHT AND INSURANCE AND THEREFORE AN INCREASE IN THE SERVICE DEFICIT. THIS MAY HAVE BEEN PARTIALLY OFFSET BY AN INCREASE IN REMITTANCES.

8. THE CAPITAL ACCOUNT IN DETAIL WOULD BE ROUGHLY THE FOLLOWING:

- A) FOREIGN AID -0.2
- B) DOWNPAYMENT ON DEFERRED
PAYMENT IMPORTS -0.1
- C) DRAWINGS ON DEFERRED

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 HONG K 10498 02 OF 02 230456Z

PAYMENTS CREDITS 0.2
 D) BORROWING FROM PRC
 BANKS IN HON KONG
 (INCLUDING RMB DEPOSITS) 0.2
 E) OTHER CREDIT 1.1
 BALANCE 1.2

NET USE OF 12-18 MONTH CREDIT FINANCING AGRICULTURAL IMPORTS SHOULD BE RELATIVELY SMALL THIS YEAR BECAUSE THE VALUE OF THE TRADE HAS NOT INCREASED AS MUCH AS LAST YEAR. FOR EXAMPLE, CREDIT FROM U.S.M- BASED BANKS IS DECLINING. BUT THE SINO-JAPAN TRADE DEFICIT HAS JUMPED DRAMATICALLY FROM ABOUT \$250 MILLION IN 1973 TO \$750 MILLION THIS YEAR. CREDIT, IN ADDITION TO DEFERRED PAYMENTS - ACCUMULATION OF YUAN BALANCES, 1-3 YEAR EXPORT CREDITS, EUROCURRENCY DEPOSITS - IS ALMOST CERTAINLY BEING DRAWN THERE. THE BANK OF CHINA MUST ALSO BE INCREASING THE LEVEL OF ITS SHORT-TERM TRADE FINANCING OUTSTANDING FROM WESTERN EUROPEAN BANKS. BUT WITH CURRENT LEVELS OF INTERNATIONAL INTEREST RATES, IT IS CHEAPER TO RAISE ADDITIONAL MONEY WHERE POSSIBLE IN HONG KONG BY REPATRIATION OF RMB DEPOSITS TO PEKING AND BY THE REDUCTION OF PRC BANK LOANS IN THE HK INTER-BANK MARKET RATHER THAN TAPPING THE EUROCURRENCY MARKET. FINALLY, THERE ARE INDICATORS THAT RESERVES ARE BEING DRAWN DOWN WHICH IS UNUSUAL BEHAVIOR FOR THE PRC.

9. PLANT IMPORTS - PLANT IMPORTS, INCLUDING THE BOEING CONTRACT, AMOUNT TO \$2.1TP MILLION SINCE 1971. ALTHOUGH VALUE OF NEW CONTRACTS THROUGH JUNE 1974 KEPT PACE WITH THE 1973 RATE, IT APPEARS TO HAVE SLOWED DOWN LATELY. IT IS IMPORTANT TO KEEP IN MIND IN CONSIDERING THIS PHENOMENON THAT:

A) THAT WHOLE PLANT IMPORTS PLAYED VERY LITTLE ROLE, SO FAR, IN THE INCREASE OF MACHINERY IMPORTS (EXCEPT FOR 707S) AND,
 B) IMPORT OF WHOLE PLANTS IS PARTLY AN EXPRESSION OF INTEREST IN NEW TECHNOLOGY, PARTLY A DESIRE TO SUPPLEMENT DOMESTIC MACHINE BUILDING CAPACITY AND PARTLY A VEHICLE FOR MEDIUM-TERM FOREIGN CREDIT.

ONE CAN CONCLUDE THAT A SLOWDOWN IN PLANT CONTRACTS DOES NOT NECESSARILY MEAN LESS RELIANCE OF FOREIGN COUNTRIES FOR MACHINERY IN THE FUTURE. IT COULD BE INTERPRETED BOTH AS SIGN THAT REQUIREMENTS IN CERTAIN INVESTMENT AREAS HAVE BEEN FULFILLED AND THAT OTHER NEEDS CAN BE FILLED WITHOUT RECOURSE TO TURN-KEY PROJECTS.

CONFIDENTIAL
 CONFIDENTIAL

PAGE 03 HONG K 10498 02 OF 02 230456Z

IT MAY REDUCE, HOWEVER, PRC ACCESS TO FIVE YEAR MEDIUM-TERM CREDITS, GIVEN FOREIGN EXPORT CREDIT AGENCY POLICIES.

10. PRC EXPORT COMPOSITION - BASED ON EXPORTS TO JAPAN AND HONG KONG (INCLUDING REEXPORTS), ROUGHLY 45 PERCENT THE TOTAL, THE

FOLLOWING TRENDS CAN BE OBSERVED:

- A) COTTON AND SILK TEXTILES, EXCEPT FOR CLOTHING, HAVE GROWN VERY LITTLE IN VALUE TERMS, SO THAT VOLUME HAS PROBABLY DECLINED,
- B) PROBABLY, AS A CONSEQUENCE OF POINT A) THE SHARE OF FOODSTUFFS AND MISCELLANEOUS MANUFACTURING IS INCREASING,
- C) CRUDE PETROLEUM IS BECOMING AN IMPORTANT EXPORT (7 PERCENT OF THE TOTAL AND 22 PERCENT OF SALES TO JAPAN),
- D) TEXTILES WERE MOST THE IMPORTANT EXPORT (ONE THIRD) TO U.S. IN HALF OF 1974.

11. CONCLUSION - BASICALLY, PRC IS CONTINUING TO RELY ON THE EXTERNAL SECTOR TO SUPPLEMENT ITS OWN RESOURCES BOTH QUANTITATIVELY, BY A CURRENT ACCOUNT DEFICIT, AND QUALITATIVELY, BY IMPORTING ADVANCED EQUIPMENT. THE INCREASING DEFICIT HAS BEEN MANAGED SO FAR BY USING HIGH INTEREST, RELATIVELY SHORT MATURITY CREDIT BUT THERE ARE SIGNS OF STRAIN, I.E., USE OF RESERVE ASSETS AND REDUCED LENDING IN THE HK MONEY MARKET. STEPS TO EITHER REDUCE THE DEFICIT AND/OR FIND NEW AND LESS COSTLY MEANS TO FINANCE IT WILL PROBABLY APPEAR IN THE NEXT SIX MONTHS.

CROSS

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: IMPORTS, DATA, EXPORTS, BALANCE OF PAYMENTS, INVESTMENTS, BALANCE OF PAYMENTS DEFICITS
Control Number: n/a
Copy: SINGLE
Draft Date: 23 SEP 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: izenbei0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974HONGK10498
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740268-0291
From: HONG KONG
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740923/aaaaatht.tel
Line Count: 299
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: HK A-96, HK 4861
Review Action: RELEASED, APPROVED
Review Authority: izenbei0
Review Comment: n/a
Review Content Flags:
Review Date: 25 JUL 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <25-Jul-2001 by reddocgw>; APPROVED <10 MAR 2003 by izenbei0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CHINA'S 1974 BALANCE-OF-PAYMENTS
TAGS: EFIN, CH
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005